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FISCAL IMPACT STATEMENT

LS 6804

BILL NUMBER: HB 1994

NOTE PREPARED: Jan 5, 2003

BILL AMENDED:

SUBJECT: State Expenditure Limitations.

FIRST AUTHOR: Rep. Turner

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
☒ **FEDERAL**

IMPACT: State & Local

Summary of Legislation: This bill limits the percentage increase in state expenditures to the percentage increase in inflation and population. It allows voters or two-thirds of the members of the General Assembly to authorize additional spending. The bill repeals business cycle spending controls replaced by the spending cap established by this act.

Effective Date: July 1, 2003.

Explanation of State Expenditures: *Expenditure Limits:* This bill establishes a maximum annual percentage change for state government expenditures to be based on the sum of the percentage changes in inflation, defined as the percentage change in the Consumer Price Index (CPI), and in population. The maximum annual percentage change may not exceed 6%. If revenues exceed the expenditure limit, the excess shall be refunded in the next state fiscal year, except for an amount the majority of voters agree to apply toward an increase in allowable spending. The General Assembly may authorize spending that exceeds the expenditure limit if a concurrent resolution is adopted by a 2/3 majority of the members of both the House and Senate.

The bill repeals the expenditure limits set out in P.L. 192-2002ss. P.L. 192-2002ss established a maximum annual percentage change for state government expenditures to be based on the percentage change in Indiana non-farm personal income over the last six calendar years or 6% beginning in FY 2006. The expenditure limit for FY 2004 and FY 2005 was 3.5%.

The bill allows individuals to file a lawsuit to enforce the state expenditure limits. Successful plaintiffs are allowed costs and reasonable attorney fees. The state may recover costs and reasonable attorney fees if a suit

is ruled frivolous.

This bill applies to appropriations beginning in FY 2004. According to the July 11, 2002, *Reserve Statement*, FY 2003 budgeted appropriations are \$10,793.3 M and net expenditures are estimated to be \$10,447.1 M. The average annual change in CPI for the last five calendar years has been 2.46%. The average annual change in population estimates has been less than 1% in four of the last five years. Depending on the level of inflation and change in population in 2002, FY 2004 expenditures could be restricted to approximately a 3.4% increase. The spending limitation under current law is approximately 3.5% for FY 2004 and FY 2005.

The December 2002 revenue forecast projects an 8.2% increase in General Fund and Property Tax Replacement Fund revenue for FY 2004 due to increased gaming and sales taxes, and a 4.7% increase for FY 2005. The projected percentage increase in revenue adjusted for the tax increases passed by the 2002 General Assembly is 3% for FY 2004 and 4.5% for FY 2005. There is no official forecast of revenue collections for FY 2006 and beyond.

The impact on state spending and the amount of revenue which would be available for refund is subject to legislative, executive, and judicial actions.

Background Information: The average annual change in the calendar year CPI and population for the last five years, as well as the maximum limits set out in this bill, are identified below.

<u>Year</u>	<u>% Change CPI</u>	<u>% Change in Population</u>	<u>Max %</u>
1997	2.34%	.74%	3.08%
1998	1.55%	.64%	2.19%
1999	2.19%	.60%	2.79%
2000	3.37%	1.71%	5.08%
2001	2.83%	.57%	3.40%

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: *Expenditure Limits:* Distributions of state revenue to local units of government are dependent on the disposition of state appropriations.

State Agencies Affected: Attorney General's Office, State Budget Agency, General Assembly, Treasurer of State.

Local Agencies Affected: All.

Information Sources: *GF & PTRF Statement of Combined Estimated Unappropriated Reserve*, July 11, 2002 - State Budget Agency; December 18, 2002, *State Revenue Forecast* - Revenue Forecast Technical Committee; U.S. Census Bureau.

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